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**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA**

JEN ERIK SORENSEN, as Trustee
of SORENSEN RESEARCH AND
DEVELOPMENT TRUST,

Plaintiff,

v.

DIGITAL NETWORKS NORTH
AMERICA, INC., a Delaware
corporation; LEGACY SUPPORT
SERVICES, LTD. d/b/a S2G; and
DOES 1-100,

Defendants.

No. 07 CV 5568 JSW

**DEFENDANT DIGITAL NETWORKS
NORTH AMERICA'S REPLY TO
PLAINTIFF'S OPPOSING BRIEF
TO DEFENDANT'S MOTION FOR STAY**

Date: January 18, 2008
Time: 9:00 A.M.
Ctmm: 2, 17th Floor
Judge: Hon. Jeffrey S. White

TABLE OF AUTHORITIES

Cases

Broadcast Innovation, LLC v. Charter Communs., Inc., 2006 U.S. Dist. LEXIS 46623 (D.Colo. Jul. 11, 2006).....	6
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David W. Louisell & Christopher B. Mueller, Federal Evidence § 170, at 443 (rev. vol. 2 1985)	3
McCormick on Evidence at 186 (5th ed. 1999)	3

1 **I. ISSUE**

2 Defendant Digital Networks North America, Inc. ("DNNA") respectfully moves for
3 a complete stay of the above-captioned proceeding pending the ongoing United States
4 Patent & Trademark Office ("PTO") reexamination of the patent-in-suit, U.S. Patent No.
5 4,935,184 ("the '184 patent").

6 **II. SUPPLEMENTAL STATEMENT OF FACTS**

7 Defendant DNNA offers the following additional facts to supplement those
8 described in its Memorandum of Points and Authorities in Support of Defendant's Motion
9 to Stay the Litigation Pending the Outcome of Reexamination Proceedings.

10 DNNA is still in operation as an on-going business and has no present intention of
11 disbanding operations. (Golio Decl. ¶2).

12 DNNA has custody and control of archived sales figures for DNNA's sales of the
13 known accused products for the time period from DNNA's acquisition of the product line
14 until the present. DNNA has taken affirmative steps to preserve those archived sales figure
15 documents, as well as all other documents relevant to this litigation. (Golio Decl. ¶3).

16 In case Plaintiff has not already identified the manufacturer of the accused products
17 during its own investigations, Liteon Technology Corporation, located at 4F, No. 90, Chien
18 I Rd, Chungho, Taipei Hsien 235, Taiwan, manufactured for DNNA the products accused
19 of infringement. (Golio Decl. ¶4).

20 **III. ARGUMENT**

21 **A. Plaintiff Will Not Be Unduly Prejudiced By This Stay**

22 The Plaintiff has presented no valid evidence of prejudice. In an attempt to portray
23 innuendo as evidence, Sorensen: (1) incorrectly casts doubt on the viability of DNNA as an
24 on-going business through the use of non-current information from Dun and Bradstreet
25 ("D&B"); and, (2) improperly uses statements made by DNNA counsel during the course of
26 compromise negotiations with respect to the first point.

27 Sorensen asserts that "Dun and Bradstreet reported an inability to confirm [DNNA]
28 operations as recently as March 2007." (Plaintiff's Opposing Brief, Docket #34, page 3,

1 lines 5-7.) As Mark Twain famously remarked upon learning of the false publication of his
2 own obituary, “The reports of my demise were greatly exaggerated.” Had Sorensen’s
3 counsel provided this Court with a current D&B report, it would show that DNNA is indeed
4 in operation. A current D&B report, obtained the same day Plaintiff filed its Opposing
5 Brief, is included with the attached Declaration. (Second Rohde Decl. ¶2, Exhibit A.)
6 Additionally, the Declaration of Dominick J. Golio, Treasurer and Senior Vice President of
7 DNNA, confirms that DNNA is an on-going business and has no intention of disbanding
8 operations. (Golio Decl. ¶2).

9 Next, defendant DNNA objects to the use in Plaintiff’s Opposing Brief of certain
10 alleged statements made by DNNA counsel during the course of on-going compromise
11 negotiations. Federal Rule of Evidence 408 states, in relevant part, that “[e]vidence of the
12 following is not admissible on behalf of any party, when offered ... to impeach through a
13 prior inconsistent statement or contradiction: ... conduct or statements made in compromise
14 negotiations regarding the claim”

15 Sorensen and DNNA have engaged in compromise negotiations since contact was
16 first established between the parties in 2004. Sorensen admits that Plaintiff’s counsel and
17 DNNA’s counsel have engaged in compromise negotiations over at least the last year.
18 (Plaintiff’s Opposing Brief, Docket #34, page 4, lines 1-2, “... at least the last year of
19 communication could be categorized as negotiations over an appropriate licensing/release
20 fee.”) Sorensen has alleged that DNNA counsel made certain statements to Sorensen
21 during the course of these compromise negotiations. *Id.* at page 2, line 25 – page 3, 20;
22 page 7, line 2 – page 8, line 15; page 8, lines 23-25. Such statements are inadmissible
23 under Federal Rule of Evidence 408 (“FRE408”) in that they portray DNNA as having
24 made prior inconsistent statements, where the prior statements were made during the course
25 of compromise negotiations. *See also St. Paul Fire and Marine Ins. Co. v. Brother Intern.*
26 *Corp.* 2007 WL 2571960, *17-18 (D.N.J. 2007) (striking background information
27 concerning settlement negotiations which was included in a motion opposing summary
28 judgment, a statement of fact, and a certification).

Specifically, DNNA has previously asserted, and continues to assert, that Sorensen will not be prejudiced by granting the stay pending reexamination of the patent. Plaintiff is using the alleged statements made by DNNA's counsel during compromise negotiations as evidence of prejudice to the Plaintiff, thus casting the alleged DNNA statements to the contrary as inconsistent. Such use goes against the public policy of allowing the frank interchange of information during negotiations, as indicted in the Advisory Committee Notes relating to the 2006 Amendment, which prohibited the use of such statements.

The amendment prohibits the use of statements made in settlement negotiations when offered to impeach by prior inconsistent statement or through contradiction. Such broad impeachment would tend to swallow the exclusionary rule and would impair the public policy of promoting settlements. See *McCormick on Evidence* at 186 (5th ed. 1999) ("Use of statements made in compromise negotiations to impeach the testimony of a party, which is not specifically treated in Rule 408, is fraught with danger of misuse of the statements to prove liability, threatens frank interchange of information during negotiations, and generally should not be permitted.").

Federal Rule of Evidence 408, Advisory Committee Notes to 2006 Amendment.

Further "the risks of prejudice and confusion entailed in receiving settlement evidence are such that often ... the underlying policy of Rule 408 require[s] exclusion even when a permissible purpose can be discerned." *EEOC v. Gear Petroleum, Inc.*, 948 F.2d 1542 (10th Cir. 1991) (quoting David W. Louisell & Christopher B. Mueller, Federal Evidence § 170, at 443 (rev. vol. 2 1985)) (letter sent as part of settlement negotiation cannot be used to impeach defense witnesses by way of contradiction or prior inconsistent statement; such broad impeachment would undermine the policy of encouraging uninhibited settlement negotiations). Consequently, DNNA submits that the alleged statements are not valid evidence of prejudice to Plaintiff and DNNA strongly objects to the disclosure of, and attempted reliance on, the alleged statements by Plaintiff.

In asserting alleged prejudice to Plaintiff, Sorensen relies heavily on *Telemac Corp. v. Teledigital, Inc. et al.*, 450 F.Supp.2d 1107, 1111 (N.D.Cal. 2006) for the proposition that Plaintiff will suffer "substantial prejudice" if a stay is granted. (Plaintiff's Opposing Brief, Docket #34, page 5, line 13 – page 6, line 3.) According to Sorensen, in *Telemac*, multiple "motions to stay pending reexamination were denied where the likely length of

1 reexamination served to exacerbate the risk of lost evidence.” (*Id.* at page 5, lines 19-21).
2 In *Telemac*, one of the defendants had failed to preserve phone records and the *Telemac*
3 Court determined that further delay to could lead to further loss of information. *Telemac*,
4 450 F.Supp.2d. at 1109, 1111. Sorensen attempts to draw parallels to the instant case,
5 (Plaintiff’s Opposing Brief, Docket #34, page 6, line 4– page 9, line 8), but does not offer
6 evidence that DNNA has lost evidence or is likely to lose evidence. In fact, DNNA has
7 made affirmative efforts to preserve evidence, (Golio Decl. ¶3), including preserving
8 archived sales records for the accused products going back to the time of the product line
9 acquisition, (*Id.*), and has provided this Court and Sorensen with the identity of the foreign
10 manufacturer of the accused products. (Golio Decl. ¶4).

11 Although the Court in *Telemac* found that the defendants may have “lack[ed] the
12 resources to compensate Telemac in the event of a finding of infringement,” *Id.* at 1111,
13 that is not the case with DNNA. As evidenced by the current D&B report and Mr. Golio’s
14 Declaration, DNNA is an on-going business and Plaintiff’s attempts to characterize it as
15 otherwise are, at best, unsubstantiated allegations.

16 Additionally, a more thorough review of *Telemac* shows the instant case to be very
17 different. To start, in *Telemac*, the reexamination request was faulty and the PTO had not
18 yet granted the request for reexamination. *Id.* at 1109, 1110. Further, the movant
19 requested the reexamination well after the case had been filed. *Id.* at 1109, 1110.
20 Additionally, the two stays were requested eighteen and twenty-seven months after the
21 claims were filed against the defendants. *Id.* at 1111. Interrogatories, responses, and
22 supplemental responses had been exchanged, documents had been produced, and at least
23 one deposition had been taken. *Id.* at 1109-1110. Finally, the close of fact discovery was
24 very near and a trial date had been set. *Id.* at 1111.

25 In the instant case, the reexamination has already been granted by the PTO along
26 with a finding of 13 new substantial questions of patentability. (Rohde Decl., Exhibit C.)
27 Once Sorensen filed an infringement case against DNNA, DNNA immediately moved for
28 the stay pending the PTO’s decision following reexamination. Finally, fact discovery has

1 not yet begun in the instant case and no trial date has been set. *Telemac* is a very different
2 case with a significant number of distinguishing characteristics that weighed on the Court's
3 decision to deny a stay. If DNNA had delayed in requesting a stay, was at risk of going out
4 of business, had lost or failed to maintain records during litigation, or if the PTO was not
5 currently reexamining the patent-in-suit, this would be a very different situation. However,
6 that is not the case and defendant DNNA respectfully asserts that Plaintiff Sorensen will not
7 be unduly prejudiced by a stay in this litigation.

8 **B. The Plaintiff Delayed In Bringing This Case**

9 Sorensen alleges that he may be prejudiced if the instant litigation is now stayed
10 pending reexamination. However, Sorensen cannot claim delay prejudice where he himself
11 delayed in initiating the present litigation by bringing this lawsuit in November of 2007
12 after first placing DNNA on notice of alleged infringement of the '184 patent in October of
13 2004. Other courts have found that delay by the patent holder in initiating litigation
14 weighed against denying a stay. In *Ingro v. Tyco Indus., Inc.*, the court granted a motion to
15 stay litigation pending the completion of a reexamination proceeding. 227 U.S.P.Q. 69
16 (N.D.Ill. 1985). The court's reasoning was based in part on the fact that "especially in light
17 of plaintiffs own delay in initiating litigation, a stay pending completion of reexamination
18 proceedings, which on average involve 15.9 months from filing date to termination in the
19 PTO, will constitute neither undue delay nor unreasonable delay." *Id.* at 71. *See also*
20 *Hewlett-Packard Co. v. Acuson Corp.*, 1993 U.S. Dist. LEXIS 6449, *5 (N.D.Cal. 1993)
21 (granting motion for stay and noting that Plaintiff's delay in seeking to protect its patented
22 interests weighed heavily against denying motion for stay). Given his own delay, Sorensen
23 can hardly suggest that he would now be prejudiced by a stay in the present litigation
24 pending resolution of the PTO's ongoing reexamination of the '184 patent.

25 Further, as previously discussed, Sorenson now argues that he would be prejudiced
26 by a stay due to the potential for lost evidence. If Plaintiff were truly concerned about lost
27 evidence due to turnover of personnel and ownership, Plaintiff could have filed suit in 2005
28 when the sale of DNNA's Rio technology was announced. (Kramer Decl. ¶14.) Instead,

1 Plaintiff delayed two more years and now asserts that the passage of time is prejudicial to
2 him.

3 **C. Plaintiff's Proposed "Partial" Stay Is No Stay At All**

4 The "partial" stay proposed by Plaintiff is no stay at all because it would allow
5 Plaintiff to conduct wide-ranging fact discovery, thereby eliminating the benefits previously
6 recognized for staying litigation pending reexamination of a patent. First, discovery
7 problems relating to prior art can be alleviated by the PTO reexamination. *Broadcast*
8 *Innovation, LLC v. Charter Communs., Inc.*, 2006 U.S. Dist. LEXIS 46623, at *9-10
9 (D.Colo. Jul. 11, 2006). It makes sense to ascertain the ultimate scope of the claims before
10 trying to figure out whether DNNA's accused products infringe the '184 patent. Absent a
11 stay, the parties may end up conducting a significantly wider scope of discovery than
12 necessary in regards to claims which are eliminated during reexamination. *See Target*
13 *Therapeutics, Inc. v. SciMed Life Systems, Inc.*, 33 U.S.P.Q.2d 2022, 2023, 1995 WL 20470
14 at *1 (N.D. Cal. Jan. 13, 1995).

15 Second, in those cases resulting in effective invalidity of the patent, the suit will
16 likely be dismissed. *Broadcast Innovation*, 2006 U.S. Dist. LEXIS 46623, at *9-10. As
17 DNNA has previously stated, the claims of the '184 patent (as well as Sorensen's ability to
18 assert infringement thereof) will live or die with the pending reexamination proceeding
19 without change. If the present litigation is not stayed, there is a substantial risk of
20 expending enormous resources by the parties and by the Court through discovery and
21 motion practice regarding claims that may ultimately be cancelled by the PTO.

22 Third, the outcome of the reexamination may encourage a settlement without the
23 further use of the court. And finally, the cost will likely be reduced both for the parties and
24 the court. *Id.* As previously discussed, there is a significant chance that the PTO will
25 invalidate the '184 patent. This creates a very real possibility that the parties will expend
26 resources performing international discovery and possibly litigating over issues that will
27 ultimately be rendered moot by the PTO's findings. Because granting a complete stay will
28 simplify the issues and streamline the trial, should there still be a need for a trial, the Court

1 can reduce the burdens on the parties and conserve its resources. *See, e.g., Photoflex*
2 *Prods.*, 2006 U.S. Dist. LEXIS 37743, at *6.

3 Fourth, under DNNA's proposed, complete stay, Plaintiff would still be free to
4 pursue the manufacturer of the accused products, Liteon Technology Corp., to the extent
5 Plaintiff wishes to do so.

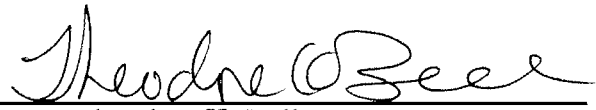
6 As a final matter, in Plaintiff's Opposing Brief, Sorensen requests that Defendants
7 "file a responsive pleading pursuant to Fed.R.Civ.P. Rules 8 and 12 within 10 days, to
8 allow the Court and Plaintiff to know what Defendants [sic] assertions and defenses are in
9 this case." Plaintiff's Opposing Brief, Docket #34, page 12. In an Order dated December
10 18, 2007 and in response to DNNA's previous motion to enlarge the time to respond,
11 Docket #28, this Court ordered that "Defendants need not answer or otherwise respond to
12 plaintiff's amended complaint unless and until ten (10) days after this Court enters an Order
13 denying the Motion to Stay." Docket #33. Thus, the Court has already decided the issue
14 regarding responsive pleadings.

1 **IV. CONCLUSION**

2 A complete stay is appropriate under these circumstances. For the reasons detailed
3 in DNNA's opening Brief and for the additional reasons detailed in this reply Brief, DNNA
4 respectfully requests that the Court order this case completely stayed pending completion of
5 the PTO's ongoing reexamination of the '184 patent.

6 Dated: January 4, 2008

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